MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BAC4694 – FORENSIC ACCOUNTING

(All sections/Groups)

05 OCTOBER 2023
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the answer booklet provided.

QUESTION 1

PART A

Forensic accounting is defined as the use of accounting theories, principles or analysis in a legal action often through expert witness testimony. Professionals with forensic accounting qualifications are in high demand as it requires various skills and talents.

Required

(a) List the most important skills required of forensic accountants. (3 marks)

(b) Describe the following Common Law financial crimes with **ONE (1)** example each:
   i. Burglary
   ii. Conspiracy
   iii. Embezzlement

(6 marks)

PART B

Four individuals have been remanded for seven days in connection with a meat cartel scandal recently. The Malaysian Anti-Corruption Commission (MACC) director, Datuk Azmi Alias said that MACC is investigating the case under Section 17(b) of the MACC 2009 Act, which carries a fine of five times the amount of the bribe or RM10,000 or whichever is higher, and imprisonment of not more than 20 years upon conviction. The syndicate, believed to have been operating for a few years, had allegedly been using the warehouse as a location to make fake labels and stamps to be pasted on packages of meat not certified to be halal.

"Investigators are going through the documents and the companies' accounts to trace their activities. We are in the process of determining the mastermind behind the meat cartel and if they had received protection from any enforcement officers," he said on Monday.

(Extracted from The Straits Time, 4th January 2021)

(a) Imagine that you are appointed to be the forensic accountant in the meat cartel scandal above, explain **THREE (3)** elements that should be included in the engagement letter.

(6 marks)

(b) Using the fraud theory, determine **FIVE (5)** relevant questions that can be asked to gather sufficient evidence in understanding the above scandal.
(Note: You may use the 5W and 1H guideline to answer)

(10 marks)

(Total: 25 marks)

Continued...

QUESTION 2

Tim Johnson is a senior auditor in a medium sized client, Dalton Enterprise. This client is a family owned, headed by Mr. William Dalton (67 years old). Mr Dalton is the president who micro-manages all aspects of the business except the finance area, which he leaves entirely to Charlie, who recently graduated with a master degree, majoring in finance. Charlie is newly appointed as the Vice President (VP) of Finance and is responsible for administering all the financial and accounting aspects of the business. Charlie has been working for a few other companies previously but accepted this job because he likes the top management post given to him. However, he is not happy with the salary offered as he believes that the salary is below market rate. Charlie replaced Henry who retired after thirty years with the organisation. George, as finance controller, reports directly to Charlie.

While analysing the travel and entertainment (T&E) expenditures, which were substantially higher by RM20,000 than last year's amount, Tim noted that most of the increase was attributable to payments made on behalf of Charlie. The supporting documentation for these expenditures were missing and in most cases, the only supporting documentation was a cheque request initiated by Charlie. When Tim queried about this documentation problem, George revealed that the company's policy of having the immediate supervisor signature on any T&E approval were sometimes not complied with, especially when Charlie requests for an urgent payment. But considering the circumstances, George was not concerned about the problem. When asked about the RM15,000 travel advance due from Charlie, George replied, "He signed the confirmation request acknowledging the amount due, so what else should I do?".

On top of the T&E analysis, Tim further noticed that bank reconciliations are not done in certain months of year 2023. George responded that Charlie is responsible for preparing the bank reconciliation since he took over the VP post. Tim decided to discuss these problems with Charlie but Charlie's response was to question why the auditors would be sceptical of his honesty. Tim had brought this matter to Mr Dalton and he is considering to call for a forensic accountant.

Required

(a) Identify and explain the fraud indicators in the case above.

(6 marks)

(b) Describe the fraud triangle that exists in the case of Dalton Enterprise.

(4 marks)

(c) Imagine that you are the forensic accountant appointed by Mr Dalton:

i. Predict with reason, any **THREE (3)** sources of the documentary evidence that you will obtain to begin your investigation.

(6 marks)

Continued...

ii. Explain any **THREE (3)** types of questions that you can use in the interview session with staff in Dalton Enterprise and provide **ONE (1)** relevant example of a question for each type.

(9 marks)

(Total: 25 marks)

QUESTION 3

PART A

Employee fraud can be defined as the act of intentional misrepresentation of a company's assets. The general rule is that the more liquid the asset, the higher the chances of it being a target for employee fraud. However, employee fraud has been in a downturn trend between 2020 to 2022 as compared to prior years because more employees are working remotely.

(Extracted from PwC's Global Economic Crime and Fraud Survery, 2022)

Required

(a) Describe the major expenditure cycle fraud schemes conducted by an employee.

(6 marks)

(b) Explain the audit processes that can detect and prevent employee fraud.

(6 marks)

PART B

You are a senior auditor in B&B Co who is also the person in charge of fraud investigation cases in the audit firm. With your wide range of experience, you presented the financial statement fraud schemes, focusing on the overstatement of revenue, in the company's fraud training recently.

Required

(a) Illustrate any **FOUR (4)** types of activities that a company could have done to overstate its revenue.

(8 marks)

(b) Contrast earnings management from earnings manipulation and justify which one is legitimate.

(5 marks)

(Total: 25 marks)

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QUESTION 4

PART A

Business valuation is the process of determining the economic value of a business which answers the question of "How much is the business worth?". This includes the assessment of various financial assets in the business entities.

Required

(a) Identify any **THREE (3)** entities that could be involved with business valuation process. Provide **ONE (1)** example for each entity.

(6 marks)

(b) One of the processes to value a business is to study and analyse the business's financial statements to ensure that certain account balances are reasonably stated. Explain the type of ratio analysis that can be assessed to be comparable to other firms within the same industry.

(8 marks)

PART B

A software developer based in Malaysia, named ITlant Bhd (ITlant) and a European company concluded an online license agreement permitting use of the European company's security software for internet distribution of ITlant's software. Several years after the conclusion of the agreement, ITlant submitted a request for arbitration to the Malaysian Institute of Arbitrators (MIArb) claiming that the European company's security application had not prevented third parties from unauthorised access to ITlant software and caused substantial damages for breach of contract.

Required

(a) In your opinion, why ITlant prefers to use arbitration process as compared to litigation.

(6 marks)

(b) One of the major risks of unauthorised access to ITlant is identity theft. Explain identity theft and provide any **TWO (2)** examples of identity theft crimes.

(5 marks

(Total: 25 marks)

End of Paper.